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¶1. Summary: The tourist havens of Punta Cana and La Romana in the eastern part of the Dominican Republic are beginning to feel the effects of the global economic downturn, but the impact remains limited and most new development is continuing. However, Cap Cana, a large scale luxury resort project, which nearly defaulted on a USD 100 million bridge loan in November, has been forced to trim operations and cut back on staff. Early indicators for the high season which runs from December to March suggest that occupancy rates will be 5 to 10 percent below 2007 levels. Another threat for the tourist developments near Punta Cana is the lack of urban planning and public services. End Summary.

Tourist arrivals down about 5%

¶2. The effects of the economic downturn are beginning to reverberate in the Dominican Republic's eastern tourist destinations, Punta Cana-Bavaro and La Romana-Bayahibe. After a decade of rapid growth, both destinations have begun to perceive the first decline in passenger traffic since the region began to develop 40 years ago, with the exception of late 2001. Juan Carlos Sanchez, executive director of the Bavaro Tourism Cluster, told Econoff that some hotel occupancy rates in Bavaro fell as low as 20 percent in September and October. While these months are traditionally the slowest of the year, he said it was the first time he could remember occupancy rates dropping below 30 percent. Early indicators of high-season occupancy rates showed a small decline compared to last year; Eastern Zone Hotel Association President Ernesto Veloz said Christmas week occupancy rates of 85-90 percent were about 7 percent below 2007 rates for this peak occupancy period.

¶3. Airport records confirmed the drop in passenger volume. Nationwide, the arrival of non-resident foreign nationals (the group that most often corresponds to tourists) showed growth until August, when it began falling slightly. The non-resident foreigner numbers from September through November were down 7.5 percent compared to last year. While the arrivals at Punta Cana International Airport (PUJ) were slightly stronger than the national trend, down just 4.6 percent, the smaller La Romana International Airport (LRM) saw travel by this group fall 20 percent below 2007 figures. PUJ received just under 1.8 million passengers in 2007, 40 percent of total air arrivals in the Dominican Republic, and LRM processed about 212,000 passengers. Both airports rely almost exclusively on tourist travel.

¶4. PUJ, the country's highest-volume airport and the world's largest privately owned airport, is fully owned and operated

by Grupo Puntacana, established 40 years ago as one of the first major tourist developers on the eastern shore. The airport's director of operations, Walter Zemialkowski, who previously directed a county-owned airport in Florida, said Punta Cana's status as a private facility allows it greater agility in responding to changing situations. He told EconOff that although he expects this fiscal year to show a drop in passenger volume of about 5 percent, he did not foresee any layoffs or a slowdown in the facility's investment plans. In fact, the very day that EconOff visited Zemialkowski, the airport was processing its first flight in the new Terminal B, which will be used primarily for U.S. travelers. Zemialkowski said that after 20 years of growth in passenger traffic (with the exception of fiscal year 2002), a period of decline represents small concern.

¶5. The passenger reductions at LRM, however, a small airport located roughly equidistant between PUJ and the Dominican Republic's second largest airport, Las Americas International Airport in Santo Domingo (SDQ), are part of a long-term trend. Since receiving 300,000 international travelers in 2004, the airport processed just 220,000 last year and is looking at even slimmer arrivals this year. But Luis Emilio Rodriguez Amiama, who directs the airport as well as the nearby port and duty-free zone (all three are owned by the sugar and tourism giant Central Romana Corporation), is unfazed by the pattern. He noted that LRM makes more money per passenger in terms of fees than any other airport in the country and remains a money-maker for Central Romana as well as a key component of its tourism operation, which includes the Casa de Campo resort and a cruise ship terminal.

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Cap Cana: country's first victim to financial crisis

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¶6. While the economic downturn represents a slight contraction in tourist volume for most players in the tourism sector in the Dominican Republic, it has taken a greater toll on Cap Cana, a 46-square-mile luxury golf and beach development south of Punta Cana. More than any other tourist development in the Dominican Republic, Cap Cana is fully integrated in global financial markets, the company's CEO and Executive Vice President, George Spence, explained to EconOff. Seeking USD 100 million in financing, Cap Cana hired Morgan Stanley and Deutsche Bank to issue bonds in December 2007. But when the investment banks advised Cap Cana that the bond market was poor, Cap Cana instead opted for a bridge loan with those same institutions, which they intended to refinance within the next year through a bond issue. The climate never improved for bonds, however, and when the bridge loan came due in November 2008, Cap Cana sought refinancing from Lehman Brothers. That attempt fell through when Lehman Brothers collapsed three days before the bridge loan matured. With no credit available, Cap Cana negotiated to settle with its creditors, a group of cash-starved hedge funds that had acquired the loan and on December 7, the company settled its debt for cash and a large chunk of its property.

¶7. With its financing run dry, Cap Cana has laid off more than half of its 1500-person staff, ceased all construction (except for projects near completion), and settled debts to local creditors with in-kind payments of property and building supplies. Cap Cana now owes USD 200 million, compared to USD 500 million a few months ago, and is aiming to cut that amount to USD 100 million. On December 23, the company solicited consent from its bond holders to extend the maturation date on a series of notes by up to 45 days. Now, Spence explained to EconOff, Cap Cana is in a holding pattern, waiting for the credit climate to improve so the company can continue its development plans.

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Economic downturn just a speed bump for new developments

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¶8. While the Cap Cana experience might be expected throughout the sector, most large luxury development projects are proceeding as planned, albeit with lower sales. EconOff visited the construction site of the multibillion-dollar Roco Ki beach and golf residential development in Macao, north of Bavaro. The anchor of Phase I of the 2700-acre development will be two luxury hotels, Westin and Fairmont, and a Nick Faldo-designed golf course, which opened to outstanding reviews on December 12. Although none of the residences or hotels are completed, the golf course opened early as a draw for prospective buyers. Construction is proceeding as planned, Roco Ki CEO Nicholas Tawil told EconOff. Tawil noted that a few buyers have backed out because of the global economic situation, but overall sales remain strong.

¶9. On December 11, President Fernandez was on the eastern shores to help break ground for the Vista Cana Resort and Country Club, a USD 6 billion-dollar development away from the shore featuring townhouses and condominiums for retiring baby boomers with prices starting below USD 150,000. The project, backed by Venezuelan financiers, is being built by New Jersey-based Hill International. President Fernandez returned to the region on December 29 to break ground at Punta Perla, a USD 1.2 billion marina and golf resort aimed at the European market. Prince Albert of Monaco, one of the project's investors, also wielded a shovel at the groundbreaking.

Rapid growth with no central planning

¶10. Punta Cana-Bavaro has grown into the country's primary tourist haven with expansion occurring primarily over the past decade, as U.S., Canadian and European tour operators and hotels have turned it into one of the Caribbean's top all-inclusive destinations. But the growth has been haphazard and insular. Lacking zoning or regularly enforced local ordinances, Punta Cana's more than 40 hotels have sprouted up without adequate public services. Furthermore, the 30,000 hotel rooms in the region are almost entirely located in all-inclusive resorts from which guests rarely stray so there has been little impetus for infrastructure development. The difference in organization between Bavaro, north of the airport and home to the highest concentration of

all-inclusive hotels, and Punta Cana, south of the airport and developed by Club Med, Puntacana Resort and Club and Cap Cana, is striking. Whereas Punta Cana is orderly and has well-paved roadways with good lighting and signage, roads in Bavaro are confusing, cluttered, slow and bumpy. The hotels in Punta Cana have invested in the local infrastructure themselves rather than depending on the government which has not given priority to infrastructure development, even in the tourist areas.

¶11. The Bavaro-Punta Cana Tourism Cluster has developed an Ordinance Plan to address this issue. The more recent influx of second home owners and retirees, as well as the growing community of local tourism workers, has led to more support for this plan. A few years ago, Bavaro became its own municipality, splitting off from Higuey, a sugar cane and cattle ranching center about 60 kilometers inland. Fundamental to this plan is the completion of the Tourist Boulevard, a wide road from Punta Cana to Macao. Parts of the boulevard are already complete and will vastly shorten the distance between the locales along the shore. But the most pressing component of the plan is water management; dropping water tables indicate that current usage is unsustainable. Sanchez, the tourism cluster's director, told EconOff that if this situation is not addressed, Punta Cana's popularity could wane, as happened in Puerto Plata and Acapulco. The cluster is seeking GoDR assistance to construct a wastewater management facility as well as an aqueduct to bring water from inland areas where there is less demand. Sanchez said that the municipality and private sector support the plan but the project is only feasible with government financing.

¶12. According to Sanchez, the cluster aims to become the voice of sustainable tourism for the region, addressing public goods such as destination marketing, park oversight and solid waste and water management. He noted that some of these areas can become revenue generators for the cluster. For example, if the cluster manages to build the water management facility, it will be able to charge users. Likewise, park management generates revenue and the cluster intends to charge users for solid waste pickups as well as to generate electricity from the organic garbage. One of the backers of the nationwide cluster program is USAID's Dominican Sustainable Tourism Alliance (DSTA).

¶13. Sanchez and hotel association president Ernesto Veloz both told Econoff that they detect a different attitude from new Tourism Minister Francisco Javier Garcia, who replaced Felix Jimenez in August. Veloz commented that while Jimenez ignored the region's infrastructure needs to concentrate state investments in areas where he had a personal stake, Javier seems like a more professional official and has expressed interest in Bavaro's needs.
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